



1918

Approaching Peace.

THERE was little in the war situation last spring or even in midsummer upon which to base hopes of early peace, and it is difficult to realize that in three months the situation has been so completely reversed that peace with victory is in sight. But on both sides it was recognized from the first that if Germany was to win after the entrance of the United States she must do it in the summer of 1918. When Germany early in 1917 decided to defy the United States and carry submarine warfare to the limit, she staked everything on the expectation that England would be made to sue for peace before an effective American army could be placed on the front. When the spring of 1918 opened it was evident that the starvation plan had failed and that the German armies must achieve a victory in the next few months or the war was lost.

The supreme effort was made, and up to the middle of July German hopes were high, but when the tide turned there was no room left for German hopes in this war. Germany had made her last throw and lost. She could not recover this year and next year the situation would be more desperate.

The German command knew it and Germany's allies knew it. The elements of dissent, silent while Germany seemed invincible, quickly made themselves felt, and when a powerful thrust on the Grecian front separated the Bulgarian army from its Austrian ally, Bulgaria surrendered. This meant the doom of Turkey, for isolated from her allies and with her own armies beaten, that country could not hope to hold out. The opening of the Dardanelles would give the Entente allies access to the Black Sea and probably enable them to reinstate Rumania and Russia. The new situation brought the southeastern war front back to the Danube, raised definite hopes in all the Slavic peoples of the Hapsburg empire, and brought that empire face to face with dissolution. It asks for peace because it can fight no longer.

Germany's Situation.

It is not questioned that Germany is yet a powerful nation and able to put up a strong military defense at her borders. But why should she

**Economic Conditions
Governmental Finance
United States Securities**

NEW YORK, NOVEMBER, 1918.

spend her remaining strength in hopeless defensive fighting? The blockade will become tighter than ever. With Austria-Hungary out the Italian armies will be released for use against Germany. The German allies in Russia will be ousted from power, and not only Russia eager to recover her Baltic provinces but Poland in arms for her independence, will confront Germany on the East. The economic pressure alone will be unbearable.

Such advices as come out of Germany through the neighboring countries indicate that the internal situation is already very threatening. The enormous expansion of credit which has taken place has been based upon the expectation of victory, with indemnities and terms which would open a great future to German commerce and industry. Now there is faced the payment of indemnities, reduction of the empire, an appalling burden of taxation, and a most unpromising prospect for foreign trade. Under these conditions the strain upon both public and private credit is very great. Alarm and timidity spread, money is hoarded, cohesion is lost, and society tends to dissolve into its individual elements. The situation becomes that of every man for himself, with the understanding that the devil will get the hindmost.

It is not too much to say that the bitterest enemies of Germany, those who wish to see her utterly crushed, are hoping that she will elect to make defense to the last. The less she can save from the wreck, the better they will be pleased. On the other hand the leaders of industry and finance in Germany must feel that the military authorities have been in charge of policies quite long enough. The former are looking forward to the task that will fall to them when the war is over. It is safe to say that they are more concerned to have assurances regarding supplies of raw materials in the future, and other trade relations with their present enemies, than for a protracted defense. These are the matters of chief importance to Germany now, and it is not strange that she should want a conference at which they can be discussed.

Terms of Peace.

There is one thing which the German government and German people will have to make up

Those desiring this Bulletin sent them regularly will receive it without charge upon application

their minds to promptly, and that is that the terms of peace will not be based upon the theory that Germany has been fighting a defensive war. That fiction is an insult to the peoples with whom they have to deal, and any suggestion of it is enough to end negotiations. At the beginning of the war, there was some standing for the view that the outbreak was the result of the strained situation which had existed in Europe for a long time, and that responsibility was therefore divided and could not be exactly allocated. There was much of that sentiment in this country, which was reluctant to believe that Germany had deliberately seized upon the Austrian assassination as an opportunity to precipitate war. But the revelations of the Potsdam conference, the statements of the German Ambassador at London and Dr. Muhlon, and other like evidence, have swept away this charitable presumption of innocence. Germany and Austria stand at the bar as defeated conspirators against the peace of the world.

Mr. Balfour has summarized the necessary terms of peace in the words, "Restitution, Reparation and Guarantees for the Future." Restitution means giving back what has been taken, reparation means making good the losses wantonly and unlawfully inflicted upon individuals and public property; it might justly include more, but complete reparation is impossible. Guarantees as to the future mean changes in the political constitutions of the two empires and a breaking up of the solid block of Central Europe now included in their dominions, so that nationalities over which they have never had a just right to rule will be released from their authority.

Constitutional Changes.

It is urged that the German people should be accorded the right of having a government of their own choice, without dictation from outside. Upon general principles this cannot be gainsaid and the only justification for interference is that a government may be assured which is unlikely to make another such assault upon neighboring countries. Democratic institutions in their very nature are unfavorable to secret plotting and surprise attacks. If the Government of Germany is made fairly responsive to public opinion the people will not be likely to surrender their power, and there will be no such offensive exercise of power as has characterized that Government in the past. The German people have come from a liberty-loving ancestry. Their primitive institutions were democratic in character, and have been the basis of the free institutions of the Anglo-Saxon race. The development, in the direction of parliamentary institutions was under the insular conditions of England, and toward autocratic institutions in Germany is traceable to their immediate contact with surrounding foes throughout their history. Under the autocratic leadership, which has finally brought them to disaster, they became a great

nation, and they were not very unlike other peoples in their disinclination to change that which they believed to have served them well.

The Present German Government.

The German Empire is a confederation of 25 states and one imperial territory, Alsace-Lorraine. Prussia is the dominant member and the King of Prussia is by that fact Emperor. The upper legislative body, known as the Bundesrat, is a Federal Council, composed of representatives of the ruling powers of the states, that is to say, of the royal and princely families. The members are appointed and instructed by the rulers. There are 61 members of the Bundesrat, of which Prussia has 17, and these are appointed by the Emperor as his representatives. He also appoints 3 for Alsace-Lorraine. The approval of the Bundesrat is necessary to all legislation and its proceedings are in secret.

The popular legislative body is the Reichstag, a body of 397 members, for the election of which all male citizens aged 25 years or over may vote, but there has been no re-arrangement of districts since 1871, with the result that the industrial districts are inadequately represented. The Reichstag is not as powerful a body as the House of Representatives at Washington or the House of Commons, as the executive authority is less dependent upon it. Appropriations for particular purposes once made are automatically continued from year to year. The Reichstag has no power over the ministry, as in Parliament, and none over the Emperor, who makes the ministers. Even the Bundesrat was not consulted upon the declaration of war. The two Emperors at Berlin and Vienna put their countries into this war by their own will and authority.

The government of Prussia, the dominant state in the empire, is even more autocratic than that of the empire. The legislature is the Landtag, the upper chamber of which is composed of the nobility, with hereditary privileges and titles, or indebted for them to the Emperor. The lower house is elected by manhood suffrage, but under a system which in this age is remarkable. The voters of each electoral district are divided into three classes according to the amount of taxes they pay, and these groups are entitled to elect, each for itself, an equal number of representatives. The result designed and accomplished is that the small group of the heaviest tax-payers has as large a representation in the House as the great body of voters in the third class. It is a virtual nullification of the doctrine of one man one vote. Finally, the King has an absolute veto upon all legislation.

Already measures are under way, which, if completed in good faith, will radically change these features.

German Territorial Losses.

The hardest feature of the peace terms will not be the changes in the form of government, but the loss of territory and population. It will

be hard for Germany to give up Alsace and Lorraine, particularly the latter, in which the chief iron and steel development has taken place since 1870, but it will be harder still to give up the provinces of Silesia and Posen, and perhaps West Prussia, on the east, which belonged to the old Kingdom of Poland. The population of the first two is chiefly Polish, and this is largely true even of West Prussia, the capital of which, Danzig on the Baltic, is the natural port for all of Poland. The difficult feature of this situation is that the province of East Prussia, lying east of West Prussia, has for the most part a German population, and naturally should remain with the German nation.

But even after these terms, which are foreshadowed in President Wilson's notes, have been imposed, Germany will remain next to Russia the most important country of Europe in area of territory and in population, and, of course, far ahead of Russia in industrial importance. The provinces she seems fated to lose have a population of about 12,000,000, and she will have not far from 60,000,000 remaining, a compact and homogeneous body of industrious, frugal and efficient people. Besides these there are 7,000,000 to 8,000,000 people in the German provinces of Austria who will be natural allies, and in the break-up of the Austrian Empire and the wreck of imperial houses may conclude to cast in their lot wholly with Germany. If this should be the outcome, Germany would have not far from the same population as before the war, and composed wholly of people of her own race and having their natural home within her boundaries and under her institutions.

Dismemberment of Austria-Hungary.

The results of the war to the Austro-Hungarian Empire will be far more serious, because that Empire is a conglomeration of races now eager for independence or to be attached to adjoining nations with which they are racially affiliated.

According to census returns of 1900 there were at that time about 45,500,000 people in Austria-Hungary, divided among races as follows:

| | |
|---------------------|------------|
| German | 11,300,000 |
| Magyar | 8,751,877 |
| Latin: | |
| Rumanians | 3,630,442 |
| Italians | 727,103 |
| | 3,757,544 |
| Slavic: | |
| Poles | 4,252,483 |
| Ruthenians | 3,811,017 |
| Slovenes | 1,192,780 |
| Servians and Croats | 3,442,129 |
| Czechs and Slovaks | 7,975,038 |
| | 20,673,447 |
| Other nationalities | 915,604 |
| | 45,398,472 |

The Slavs of the several groups, including the Czechs, came to their present homes from what is now Russia, settling in territory vacated by Germanic tribes as the latter moved westward. The Magyars, or Hungarians, also came from the present Russia, but were originally from Asia.

The Rumanians have a strong Latin strain, derived from Roman colonists of the period of the Empire. The kingdoms of Bohemia, Poland and Hungary were independent for centuries, but the royal families intermarried with each other and with the Hapsburgs, the royal house of Austria, which was also for a long time the imperial house of Germany. The wars with the Turks forced the countries into close relations, and finally the Bohemian Kingdom came fully under the domination of Austria. The Hungarians have maintained their autonomy to a greater extent, but have been united with Austria in a dual monarchy, having a monetary system in common and common control over the army, navy and foreign offices. This combination of Germans and Hungarians has ruled the Empire. It has not been a happy family, but prior to this war the hopes of the various submerged elements had been for a federated empire, in which they would be allowed complete local autonomy. It is probable that if their wishes in this respect had been met in a liberal spirit the interests of the entire population would have been served more effectually than by the dismemberment which now seems inevitable.

The Bohemian statesman, Polacky, in 1848 said that if there was no such empire as Austria it would be necessary to create one, meaning that for that part of Europe a composite empire was the logical organization, but he gave warning that it must be a federation based upon racial equality or it would not stand.

Internal Weakness.

But neither the Austrian nor German governments have been successful in developing a feeling of loyalty and affection in these racial groups within their territories. The latter have not only maintained their racial identity but their old national feeling, and regard themselves as subject peoples. They hunger for freedom; they are reproached as traitors but instead of denying it they avow it. Did not the central powers know that this discontented population was a weakness in their midst? If not, their blindness is now evident and is one of the lessons of the war. A nation which neglects to satisfy the normal aspirations of its people, or which fails to win their loyalty, neglects or fails at its peril. These nationalities want nothing but independence now, but possibly federations may be arranged in after years if economic interests will be served thereby.

The answer which President Wilson has given to the Austro-Hungarian Government shows that this country is committed, with its Allies, to the erection of a Czecho-Slovak state, composed of Bohemia and Moravia, which had a population in 1900 of 8,700,000. The provinces of Austria and Hungary on the south, inhabited by Jugo-Slavs will probably be incorporated in a greater Serbia, the Rumanians of Transylvania, now a part of Hungary, will probably be attached to Rumania, while Galicia, now a part of Austria,

will doubtless be returned to Poland. Whether the alliance of Austria and Hungary continues will depend upon agreement among themselves, but both of these states will be shorn of their subject races in so far as the latter can be grouped by themselves. The Italian irredenta will be returned to Italy. Both Austria and Hungary, under the terms stated, will lose their important ports on the Adriatic, Trieste and Fiume. This is a serious loss, and has its regrettable side, for the same reasoning which would claim for Poland a port on the Baltic would claim for Austria and Hungary a like opening to the Adriatic. Possibly the commercial needs may be met by treaty.

The Republic of Poland.

The ancient nation of Poland, which the Allies have determined to re-establish, was dismembered in the latter part of the eighteenth century, and divided between Russia, Germany and Austria. Catharine of Russia and Frederick the so-called Great were the chief conspirators. Maria Theresa, of Austria, had the grace and conscience to publicly object, but finally took her share, justifying herself by the plea that if she did not Russia and Germany would make the division between themselves, and that the importance of Austria would be relatively diminished. It was said that she even shed tears, at least figuratively speaking, over the hard fate which compelled her to participate. Later, when under somewhat similar circumstances Austria made another annexation, Frederick made the caustic comment that Maria Theresa was "always weeping and always taking."

Although about 140 years have passed since the dismemberment occurred the national spirit is as strong with the Polish people as ever it was, despite the most strenuous efforts of the governments under which they have lived to suppress it. These efforts have been more determined on the part of Germany and Russia than on the part of Austria. The irrepressible hopes of the Polish people have kept alive all these years the question of a possible re-establishment of their national identity. The subject has been a more vital one to Germany than to either Austria or Russia. Bismarck discussed it in his autobiography, concluding that "any arrangement likely to satisfy Poland in the provinces of West Prussia and Posen and even in Silesia is impossible without the breaking up and decomposing of Prussia."

The Polish people number approximately 30,000,000, compactly located, but there has been an infiltration of Germans on the west which may be a factor in fixing the border.

German Ambitions.

The war thus ends with a complete and apparently final frustration of the ambitions which Germany has labored for years to realize, to wit, the extension of German influence over the Austrian Empire, the Balkan countries and Turkey and into the heart of Asia, not to speak of an en-

larged frontage on the North Sea and a position face to face with England on the Channel. She was making steady and rapid progress with her policy of penetration. Only a few weeks before she embarked on this insane war England had withdrawn all diplomatic opposition to the Bagdad railway project. But the opportunity to coerce Servia was a temptation which could not be resisted, and now all the Slav populations are to be released from German dominion and a complete barrier of new states raised between Germany and Russia and Germany and Asia.

As already indicated Germany will remain a great and powerful state; this she has a right to be by virtue of what the German people are in themselves. The German nation loses so much of its power as it held by dominion over other peoples, who were dissatisfied under its rule and wanted to be free. It has lost the position and power by which it hoped to extend its rule over yet other unwilling populations. It has furnished another impressive object lesson, let us hope the last that will be needed for the restraint of nations, of how egotism overleaps itself and falls in humiliation and ruin.

Germany's Future.

But the German people need not despair. They will be wise if instead of lamenting the number of their enemies and the bitterness of their fate they ponder over the reasons why the whole world rendered judgment against them, and why a nation so far removed and naturally pacific and friendly as the United States took up arms against them.

Besides the losses of territory and population, and the losses of men and property in the war, they will have other costs and losses to face. Nevertheless, the German people have great resources, not only in wealth but in character. It would be a mistake as grievous as some of those committed by Germany for us to conclude in the anger of conflict that all the good we used to see in the German people was illusory. We have the German stock among us and plenty of it in our armies. There is nothing illusory about the loyalty of the great body of our people of German blood or about the fighting spirit of their sons. They are with us and of us, and we cannot deny the qualities of the people from whom they sprung. We cannot forget and would not belittle the contributions of Germany to civilization; we would only ask that Germany return to her true ideals and give to the world the service of which she is capable.

It has been often said in the latter part of the war that it was useless to try to make a distinction between the German people and the German Government, because the latter was fully supported by the former. It was, however, distinctly the German Government, and not the German people, who precipitated the war; President Wilson has recognized this in demanding that the form of the German Government be changed

to make it more truly representative of the people, as a measure of security to other countries. Moreover, it must be considered that once a nation is at war, it is very difficult for dissenting opinion to make itself known or felt. "My country; may she ever be right, but, right or wrong, my country!" is a sentiment strong in America as well as in Germany. We must be slow about uttering lasting condemnation upon a people for faith in and loyalty to their government. It may be a misguided patriotism, but it is a patriotism that has been too often eulogized to be unpardonable. Nowhere is there much patience with the "conscientious objector" to the policies of the Government in time of war.

The Community of Nations.

The German people must suffer deeply for the wrongs they have committed, but no government or generation can sin away the rights of a people, including the rights of their children of future generations. The settlement should be one that is just and that gives the German people a chance and a hope for development and prosperity in the future. They must make reparation, but for the mere purpose of enabling them to do so, if for no other motive, they will have to be given a chance to revive their industries and trade. Moreover, there is a broader reason for desiring the rehabilitation and prosperity of Germany, and that is that not only will they not be inimical to the prosperity of other nations but helpful thereto. If we hope for no more wars, let us get away from the idea that the prosperity of one nation is injurious to other nations. It is no more true of nations than of individuals, and it is false and mischievous everywhere. Nine-tenths of the ill-feeling which disturbs society is due to it. Wealth is not accumulated by getting it away from others but by industry and genius in creating new wealth, and new wealth by whomsoever created is beneficial to all. The purchasing powers of every country are in its own powers of production, and the greater these are the greater its consumption and exchanges will be.

The German people, rid of their imperialistic ambitions, are entitled to a place in the family of nations upon their merits as wealth-producers. They are able to contribute to the common fund of scientific knowledge which is the basis of the world's industries. The more rapidly we can unlock the secrets of nature the greater will be the output of industry and the more bountiful the stream of comforts and benefits flowing out into the markets and back into the homes of all the people. In this day in whatever part of the world a discovery or improvement is made it is quickly put into use in all countries. The more competent minds there are at work on all problems the better; the more rapid advancement there is in industry everywhere the better, and back of all industrial progress there must be hope, ambition, energy, rewards, prosperity.

Financial Affairs.

The actual figures for the Fourth loan have not been announced at this writing, but it is known that every district filled its quota with something to spare, which means that in the aggregate there is a handsome oversubscription. Furthermore, the loan has been taken by the public in a perfectly bona fide manner, it being unnecessary for the banks to take any unsubscribed remainder. This is as it should be, and is particularly gratifying in view of the fact that within the five months preceding this offering of \$6,000,000,000, \$4,150,000,000 had been subscribed and paid upon the Third Liberty loan, besides about \$2,000,000,000 of federal taxes.

The loan went slowly at first, considering its size, more than one-half being subscribed in the last week. The reason obviously was that corporations and individuals of large incomes did not see their way to subscribe as freely as for the earlier loans, on account of the increased taxation for which they were obliged to make provision. This was foreseen by everybody at all familiar with the situation. The following paragraph from a letter received by this Bank before the loan campaign began describes the position of many business concerns:

September 9, 1918.

"Replying to your favor of the 7th instant, initials DF, regarding subscriptions to Fourth United States Liberty Loan, we appreciate your offer to help us carry the bonds, but wish to say that the law as now proposed, will make it absolutely impossible for a corporation in our class to subscribe. The law as proposed will conscript more than the ordinary available liquid profits of any corporation and impose a penalty on paper profits if not distributed as dividends. All corporations are required increased capital to carry the increased amount of their book accounts and the increased value of their working inventories. It is quite certain that there will be a tremendous shrinkage in the more or less fictitious values of said inventories."

As we stated last month the question was not whether it was the best policy to take from the rich by taxation or by loans, but whether they could respond to both demands to the extent expected of them. The weakness of the revenue bill as it passed the House was in not having enough general taxation. All classes are prosperous enough to stand more taxation. The private expenditures of the country are on an enormous scale, and are not only impeding war work but producing an embarrassing state of inflation.

In the last days of the campaign the evident need for large subscriptions brought round amounts from thousands of corporations and individuals who had held back because they questioned the prudence of "doubling up" in the face of the impending taxation. The taxes will not fall due until next year, and with the turn the war has taken perhaps loans will not have to be so heavy next year. They have left next year's problems to next year, and are putting this year's profits into bonds, trusting to luck for the means of paying the taxes.

Future Liberty Loans.

If terms of peace are agreed upon at an early day the Government's construction and manufacturing program will be considerably curtailed,

but expenditures upon the army and navy will necessarily remain very large. It must be remembered that the proceeds of the Fourth loan have been to a great extent anticipated by the Treasury and already expended, the seven offerings of Treasury certificates having brought in \$4,665,320,000. It is evident therefore that a great deal of money will yet have to be raised for the war, both on our own account and for our allies.

It is not improbable that the European governments which have been borrowing here will want to continue doing so for some time after they have done purchasing war materials. They must all make heavy importations of food at least for a year to come, and they will also want quantities of raw materials for manufacturing, and probably merchandise, and equipment. These purchases cannot be made unless credits are created here, and of course it is to the interest of this country that such purchases shall be made, in order that the business situation shall be sustained in the critical period when the war business is disappearing. If our government should continue making loans for this purpose it will have to cover them by borrowings to an equal amount.

Banking Conditions.

On June 21, the twelve Federal reserve banks held bills discounted to the amount of \$1,086,023,000 and Government securities to the amount of \$259,066,000. On October 25, these items had risen to \$1,944,787,000 and \$450,311,000. Their consolidated cash reserve against note and deposit liabilities on June 21 was 61.7 per cent. and on October 25 it was 49.6 per cent. The member banks reporting to the Federal Reserve Board held \$1,582,211,000 of Government securities on June 21, and \$2,539,109,000 of such securities on October 25. Their loans and investments outside of war and Government financing were \$10,328,617,000 on June 21, and \$10,507,763,000 on October 25.

This is inflation at a galloping pace. The growth of loans means more than one-time use of the new purchasing power, for the payments return to the banks as deposits in other accounts, and become purchasing power to the new owners, and so are passed on indefinitely until someone checks on them to pay a debt. An attempt to use more purchasing power, if unaccompanied by a corresponding increase of productive capacity, means higher prices; in other words, inflation. There will be more of it when subscribers to the Fourth Loan borrow to make their payments. It is not pleasant to watch it, but we should watch it. We have not gone as far as Germany but Germany never travelled faster.

After the war, earnings will have to be diverted from productive use to sponge out this indebtedness, a payment without return because the return has been had.

Business Prospects.

The rapid development of peace prospects has brought the problem of post-war readjustment into immediate view. The first effect is seen in a spirit of hesitation. Buyers are disposed to hold off on purchases and sellers are more inclined to let goods go. The grain markets show weakness, and it is clear that peace is considered a bear argument in the trade. In the long run peace undoubtedly will bring lower prices for all foodstuffs, but it is difficult to see how it can do so in the near future. Early in the war it was considered that the opening of the Dardanelles would release stores of Russian grain, but Russia has no stores to spare now. Moreover, Russian conditions are so unsettled that it is doubtful if that country will have any grain to export next year. As soon as peace is established, Central Europe will want foodstuffs in large quantities. All the countries that are on rations will want liberal supplies, and neither Europe nor America can produce any more food before next Summer. Australia has two crops of wheat in store but the transportation problem will be troublesome for more than a year. Argentine supplies have been pretty well moved out; the new crop, upon which cutting will begin in about a month, promises about the same yield as last year's. Food Commissioner Hoover, who is thoroughly informed, says that it is even more necessary to conserve food supplies during the ensuing year than it was last year.

Cotton and Woollen Goods.

In cotton and woollen goods the situation is somewhat the same as in foodstuffs, although the demand for clothing is not so imperative as for food. Central Europe is very short of clothing, as accounts of the spinning of paper and nettle fiber show. The United States has control of present stocks of wool in this country and has sent a commission to Argentina to buy the crop now coming on that market, but if it does not call the new classes of recruits, it will hardly want all the uniforms it has planned to make. The trade is confident that the civilian demand will take all the wool the Government releases, and no doubt it will, at a price. Will the civilian demand, strengthened by the markets of Central Europe, sustain prices at or near the present level? The best authorities think no great decline is probable in the coming year. The British Government is in contract for all the wool produced in her dominions for a period including one crop after the end of the war, and as her territories produce nearly one-half of the world's wool, she is in position to sustain the price and has an interest in doing so.

It has been constantly assumed that the end of the war would bring higher prices for cotton than it has yet reached, but of late the contrary view has obtained considerable support. The price is now about five cents per pound lower

than several months ago. There can be no doubt that cotton goods are very much wanted all over the world, but whether or not present prices discount this demand is a question for experts. It probably depends in part upon general industrial conditions.

Although the Government is going ahead with contracts for army supplies, it has held up plans for construction work in some instances and has cancelled some contracts for distant deliveries. The ship-building program has been modified so that no more wooden ships will be built, and the expansion of yard capacity is probably over. Some \$60,000,000 of contracts for steel transports have been cancelled.

Industrial Situation.

Business prospects hinge of course upon the question of employment, and that in turn depends upon the urgency of the consumptive demand for products. It is beyond question that there is plenty of work at home and abroad which ought to be done; the whole world is short of consumable goods and behind on construction work. The question is, will private consumers buy freely and private enterprise go ahead freely upon the present level of prices, in view of the fact that prices are sure to make important recessions after all the men now in the armies and war industries are returned to peace work?

The war work goes ahead regardless of cost, but private consumption is reduced by high prices and private investors will hesitate to place capital at high initial cost, when there is a probability that the same property can be obtained later at a cost materially less.

For example, building operations have been curtailed for several years, and no doubt a large amount of such work would be done, if prices were normal. But will an investor build at the present level of costs, when by waiting a year or two, he may be able to do so at 20 to 40 per cent lower cost? Real estate men have confidence in active building operations. They are sure dwelling houses are needed and think there has been an accumulation of capital which will be so used. They look for a considerable conversion of Liberty Bonds into home properties. They also look for activity in office-building construction. It is probable that the realization of their hopes depends mainly upon the general state of employment and business, and that is the case in many lines.

Favorable Factors.

What are the conditions which are definitely favorable to trade and industry? In the first place agriculture is prosperous and quite certainly will be for the year to come, and this means buying power in the largest single group of the population. The foreign demand for all raw materials should be large, which includes the metals, copper, lead, zinc and silver, and the districts in which these are produced should be busy. The demand for cotton and cotton

goods should be such as to make the South prosperous, and to give employment to the mills in all sections. Ship-building presumably will continue throughout next year, and this will not only give employment in the yards but furnish an outlet for steel. The agricultural implement business will also have a large export trade, and will use an important amount of steel. The automobile industry showed no signs of being affected by the rise of materials, and only asks to have the latter supplied. Machinery of many kinds will be wanted for replacement abroad. Lumber and builders' hardware and steel and railway equipment presumably will be wanted abroad for rebuilding, but the extent of this demand cannot be calculated. Speaking generally, foreign trade should be better than before the war, if means are found by which would-be customers can make payment. It may as well be recognized at the outset that this question of how payment can be made is a vital one.

Foreign Trade.

Numerous conventions, associations, committees and officials are busy discussing and planning to increase our export trade, and we are with them in their efforts, but almost nothing is said about this fundamental matter of how our foreign customers are to make payment. This is not a question of their solvency, or of whether sales shall be on 90 days or 6 months time; it is the question of the equilibrium in foreign relations, or in bankers' language, the question of "exchange." The United States has changed over from being a debtor nation to the position where it will have a large balance of payments in its favor. This means new relations and obligations, and has direct bearing upon foreign trade.

The loans of the United States Government to foreign Governments now amount to about \$7,000,000,000, and before this lending stops it is probable that including bank loans the total indebtedness to this country will be fully \$10,000,000,000, upon which the annual interest charge will be over \$400,000,000 per year. Moreover, we have bought back most of the American securities that were held abroad. We have nearly always had a merchandise trade balance in our favor, and for the ten years immediately preceding this war it averaged \$498,000,000 per year, but this was practically counterbalanced by the charges and services of various kinds for which we owed Europe. Important among these items were interest and dividend payments and shipping charges on our overseas trade.

Now we are proposing to have a great fleet of our own, and so cut down our payments of freight charges; the interest and dividend payments will be largely reduced, and on the other hand we will have this new offset of \$400,000,000 to \$500,000,000 per year on interest account.

The reader will possibly say that this makes the future look very rosy, but we would beg him to consider this favorable situation with relation to the plans for enlarging our export trade. How will our foreign customers make payment for even such a merchandise trade balance as we have had in the past, not to mention a larger one? They cannot pay it in gold. The total production of gold in the world outside of the United States is only about \$400,000,000 per year, and it is perfectly certain that foreign governments will not allow it all to be sent to the United States for goods.

Unbalanced Exchanges.

We have seen within recent months a general state of confusion in the foreign exchanges because gold was not available to settle balances. Even now a resident of Canada who has a payment to make in the United States must pay about 2 per cent premium to obtain the means of doing so; that is to say, a bank draft on New York or any of the financial centers on this side of the line costs a premium of 2 per cent. This is because there is a large balance of trade in our favor, and the Canadian Government does not permit the shipment of gold, and for the time being we cannot take Canadian securities because our own Government is wanting all of our lending power.

On the other hand, it costs about 5 per cent in New York today to get a draft on Buenos Aires, and the reason is that our Government does not permit shipments of gold. The situation would be much worse but for the fact that the Argentine Government has granted a large credit in Buenos Aires to the United States Government, which the latter is selling to American importers who have payments to make at Buenos Aires. The situation between this country and Spain has been much worse: a few months ago it cost in New York a premium of 50 per cent upon the face of a Spanish invoice to get a draft on Madrid. This situation has been helped by an operation similar to that in Argentina, to-wit, by a loan of credit negotiated through Government channels.

As between Italy and the United States, the situation has been still more out of joint. It has been costing 100 per cent premium in Italy to buy a draft on New York; that is to say, a would-be buyer of American goods who had an Italian bank deposit at his command would have to pay 100 per cent above the normal par of exchange to get his Italian credit converted into an American credit. It meant doubling the cost of American goods to him. This again was because the balance of payments was heavily in favor of the United States, and neither gold nor securities could be used to settle it.

It is, of course, common knowledge that the exchange relations between Great Britain and

the United States have been sustained during the last four years, first by heavy shipments of gold and sales of American securities, and as stocks of these were exhausted, by borrowing in the New York market and finally by borrowing from the United States Government. But for the creation of credits in this manner it is evident that our sales of products to Great Britain must have long since ceased.

A premium is inevitable when payments run heavily one way, and if trade is one-sided the balance must be made up by the conveyance of other values. Unless this is accomplished the rising premium will discourage and check the continuance and growth of such trade. The greater the balance of payments, in the aggregate, in favor of the United States, the higher will be the premium our debtors or customers will have to pay. This is the process by which the natural laws of trade maintain or re-establish an equilibrium.

It will be evident to the thoughtful reader that this is a very interesting and important subject, and we shall recur to it again. Meantime, the problem is as stated and the reader can grapple it for himself.

The Wage Question.

The question of costs is mainly a question of wages, because the cost of materials of every kind consists mainly of wages. The most serious element in the situation therefore is the fact that there is little prospect for an early reduction of living costs. As stated above, food and clothing are not likely to decline very much in price in the year to come, for these are things which Europe will certainly want, and the supply cannot be meantime increased. Eventually these prices will fall, but not until new crops can be grown.

It is always a difficult matter to readjust wages downward, and few people will regard it as desirable from the broad standpoint of public policy to have wages reduced while the cost of living remains as high as at present. Such action would have an injurious effect upon business even if accepted without controversy, because it would reduce the purchasing power of millions of consumers. If it is necessary to readjust the general level of values it is important that wages and prices move together, and it ought not to be a subject of heated controversy but of intelligent conference between employers and wage-earners and upon a fair basis.

Here then is the difficulty which threatens: that there may not be a sufficient demand for construction work at the high level of prices to keep the industries employed, although an ample demand is in waiting at something like normal prices. How can the situation be supported at least until the cost of such necessities as food and clothing have made the decline which may be expected of them?

Prosperity in War and Peace.

The war has taught the lesson that the production of all the things that are necessary to the comfort and welfare of the population may be very much greater than it has been in the past. Notwithstanding all the men who have gone from the farms to the war and to the war industries, the farms have had a larger production in the last four years than in any other four years of their history; notwithstanding all the miners who have gone to the war and to other industries the production of coal has been greater than ever; notwithstanding the number of men lost to the railways the volume of traffic handled has been greater than ever. And so, if we go through all of the principal industries, producing necessities, we find that the output has been greater than ever. This is the result of a more complete employment of all our productive energies than we have ever had before.

On the face of things we have had a period of great prosperity during the war. The earnings of wage-earners have been greater than ever before, and apparently they have lived better and saved more than in average times. Farmers and business men are generally prosperous. It seems like a paradox that such should be the case as the result of a wholesale destruction of wealth, and there is much that is unreal and illusory in this appearance. A great many people have suffered severe losses by the war. The holdings of Liberty Bonds, although wealth to the individual owners are not wealth to the nation; they are simply claims on the Government revenues in the future. The normal development of the country has been checked in many respects, since the United States became a belligerent.

Nevertheless, so great has been the increased production, as a result of the unity and energy with which the people have devoted themselves to industry that the country probably has gained in wealth since it entered the war, and certainly has gained largely during the last four years. It is stimulating to think of what the gains would have been if all this newly gained energy and efficiency had been expended upon permanent improvements in the industrial equipment.

Even more paradoxical than a period of prosperity during the war would be a period of idleness, depression and distress following the war. Idle men and idle machinery mean waste just as truly as do the destruction of their products in war. It is highly important in order to minimize the difficulties likely to arise in the transition from war conditions to peace conditions that there shall be plenty of work available for the labor of the country, and that the productive agencies of the country be worked to their full capacity. The hopes that are entertained for better living conditions than have prevailed in the

past can only be realized by retaining some measure of the greater production which has been shown to be possible.

A period of transition which affects industry generally is a period of danger, because there is a probability of disorganization. In time of peace the industries are dependent upon each other and it is difficult for them to act together where an extensive new programme is required.

Leadership Wanted.

It is natural under such circumstances that they should look to the Government for leadership, as no one else can speak with authority or command prompt co-operation. There is an especial reason at this time for looking to Washington. The railroads are the most practicable agencies for creating an extensive program of construction work, and the railroads are now under Government control. It would be impossible for the companies under the present circumstances to undertake upon their own responsibility large expenditures for betterments the results of which could not be realized for years to come, because of the unsettled state of their relations with the Government, but it might be possible for the companies and the Government to agree upon a more or less elastic program of development. The municipalities also are in position to do much. Their expenditures for improvements have been curtailed and might be expanded somewhat above the average rate. The states and counties might develop an extensive policy of highway construction. Drainage and irrigation furnish other fields of operation.

If a general policy of this kind was developed and the cooperation of communities the country over was asked, sufficient work probably could be brought into sight to stabilize the situation, and once assurance was given that the situation would be supported private enterprise would be encouraged to go ahead on its own account.

The proposal of course does not contemplate useless expenditures. So far as the railways are concerned it would simply be that the improvements which have been postponed in the past for want of funds should not be longer delayed on account of the unsettled relations with the Government. A comprehensive program of railroad reorganization and development is undoubtedly required. As to the municipalities and other governmental agencies it means that they act promptly and in unison in doing work which their growth and prospects make it desirable to do at no distant day. These organizations can afford to supply leadership because they represent the public, and any cost which may result from getting their work done before wages and prices have fallen will be fully made good to them by the general prosperity of their communities. The Government has guaranteed a net return to the railroads

for a period of twenty-one months after the war and it is financially interested in maintaining the earnings.

Post-War Experience.

There are many inquiries as to business conditions following the wars of the past, but every such experience had features peculiar to itself, which make it difficult to draw lessons applicable to present problems. At the close of the Civil War in April, 1865, this country was still distinctively an agricultural community and the armies scattered to the farms and the new lands which were open to homestead entry in the West. There was no very marked change in business conditions for a year or two following the close of hostilities, except that the gold premium declined, which affected the prices of commodities entering international trade. Farm products were higher than during the war from light crops and foreign influences.

Hunt's Magazine for January, 1868, gives the following table of comparative prices compiled from quotations at New York the first of each of the years given, also the price of gold at the time, as this measures the depreciation of the currency. The table is interesting for many reasons.

| From | 1861 | 1862 | 1863 | 1864 | 1865 | 1866 | 1867 | 1868 |
|--------------------------------------|-------|---------|---------|--------|--------|---------|--------|---------|
| American Gold | Par | \$1.03½ | \$1.33½ | \$1.52 | \$2.27 | \$1.44½ | \$1.33 | \$1.33½ |
| Ashes, pots 100 lbs. | 5.00 | 6.25 | 8.50 | 8.50 | 11.75 | 9.00 | 8.50 | 8.25 |
| Wheat flour, state, bbl. | 5.35 | 5.50 | 6.05 | 7.00 | 10.00 | 8.75 | 11.00 | 10.00 |
| Wheat flour, best Genesee | 7.50 | 7.50 | 8.75 | 11.00 | 15.00 | 14.00 | 16.00 | 14.50 |
| Corn meal, Jersey | 3.15 | 3.00 | 4.00 | 5.65 | 8.80 | 4.25 | 5.00 | 6.15 |
| Wheat, white Ohio | 1.45 | 1.48 | 1.53 | 1.83 | 2.60 | 2.63 | 3.00 | 3.00 |
| Wheat, Red Western | 1.38 | 1.42 | 1.48 | 1.57 | 2.45 | 2.05 | 2.60 | 2.40 |
| Oats, State | .37 | .42 | .71 | .93 | 1.06 | .62 | .69 | .80 |
| Corn, Western | .72 | .64 | .82 | 1.30 | 1.90 | .95 | 1.15 | 1.35 |
| Cotton, mid. up | .12½ | .35½ | .68½ | .82 | 1.20 | .52 | .34 | .16 |
| Fish, dry Cod, 100 lbs. | 3.50 | 3.50 | 4.60 | 6.75 | 9.00 | 9.25 | 8.00 | 5.50 |
| Fruits, currants, lb. | .04½ | .09 | .13 | .15 | .21 | .15 | .12 | |
| Bunch raisins, per box | 1.75 | 3.20 | 3.50 | 4.10 | 5.85 | 4.40 | 3.85 | 3.80 |
| Hops, per pound | .25 | .20 | .23 | .33 | .40 | .50 | .65 | .65 |
| Iron, Scotch pig, per ton | 21.00 | 23.00 | 33.50 | 45.00 | 63.00 | 52.00 | 50.00 | 36.00 |
| Iron, English bars, per ton | 52.00 | 57.00 | 77.50 | 90.00 | 190.00 | 130.00 | 105.00 | 85.00 |
| Laths, per thousand | 1.30 | 1.25 | 1.45 | 1.50 | 2.40 | 5.00 | 3.25 | 3.00 |
| Lead, Spanish, per ton | 5.25 | 7.00 | 8.00 | 10.50 | 15.00 | 10.00 | 7.00 | 6.50 |
| Leather, hemlock, sole, per lb. | .10½ | .20½ | .27 | .30 | .42 | .36 | .32 | .28 |
| Lime, per barrel | .75 | .65 | .85 | 1.35 | 1.15 | 1.10 | 1.70 | 1.85 |
| Molasses, New Orleans | .37 | .53 | .55 | .70 | 1.43 | 1.15 | .90 | .85 |
| Oil, Crude Whale, gal. | .51 | .48 | .83 | 1.10 | 1.48 | 1.60 | 1.30 | .70 |
| Pork, old mess bbl. | 16.00 | 12.00 | 14.50 | 19.50 | 43.00 | 28.50 | 19.25 | 21.15 |
| Hams, per lb. pickled | .08 | .06 | .08 | .11 | .20 | .16½ | .12½ | .13 |
| Butter, State | .18 | .19 | .22 | .29 | .55 | .48 | .43 | .45 |
| Rice, good, 100 lbs. | 4.00 | 7.00 | 8.75 | 10.00 | 13.00 | 12.50 | 9.25 | 6.50 |
| Salt, Liverpool ground, etc. | .65 | .86 | 1.25 | 1.85 | 2.27 | 2.00 | .56 | .50 |
| Sugar, Cuba, good | .06½ | .08½ | .10 | .12 | .19 | .13 | .10 | .11½ |
| Wool, fleece | .30 | .50 | .60 | .75 | .95 | .75 | .65 | .60 |

An editorial referring to the table says:

Were it possible to give comparative prices of manufactures we think it would be found that in that department of industry prices have generally declined more than on the products here instanced. On many kinds of goods the fall has been so severe as to involve the manufacturers in embarrassing circumstances and not infrequently even in bankruptcy. This inequality in manufacturing and agricultural interests is one of the inequalities bequeathed us by the war.

There are frequent comments in the Magazine upon the high cost of living. The July number, 1866, says, that "wages are higher than ever," which indicates that there had been no industrial reaction up to that time. The August number, 1866, speaks of prosperity of the railroads, and says that notwithstanding light crops of previous year, earnings had not declined. Money was easy, and there was considerable stock speculation in Fall of 1866. The Magazine speaks of a "plethora of capital."

In March, 1867, however, the Magazine has an editorial on the "Prevailing Commercial Depression," which it attributes largely to the failure of Congress to promptly dispose of the fluctuating paper currency. Other people said that the depression was due to the policy of retiring the greenbacks, which Secretary McCulloch was then pursuing. They said he was appreciating them and shrinking currency values too rapidly. There was sharp controversy upon the subject and February 4, 1868, Congress passed an act stopping the contraction of the currency.

In November, 1867, an editorial says there was much idle capital, that for three years it had been accumulating, while the supply of securities had been diminishing rather than increasing, owing to purchases by Europe. Money was very cheap in London.

The Secretary of the Treasury in his report to Congress, in December, 1867, says that "although incomes have been small and trade inactive during the year in no other country has there been less financial embarrassment than in the United States."

In January, 1868, the Magazine speaks of the

"severe experiences of the latter half of 1867," when it says credits were contracted within narrowest limits. It says that grain crops of the world in last three years have been below normal. In June, 1868, it says that "those who anticipated a prosperous Spring trade find that the event does not square with their hopes." It adds, however, that "traders regulate their expectations by experiences during the war and anything falling short of the active business of those years appears unsatisfactory."

In August, 1868, another editorial speaks of dull trade over the world, stagnant enterprise, a plethora of money accumulations, and large purchases of our bonds by Germany and other countries. The Secretary of the Treasury in December said that Europe held not less than \$850,000,000 of our bonds, and that our debt to Europe was increasing at the rate of \$60,000,000 to \$70,000,000 per year. From 1867 to 1873 the merchandise trade balance was steadily against the United States.

Commercial failures in the northern states from 1864 to 1868 were as follows:

| | | | |
|------|-------------------|------|-----------------|
| 1864 |\$ 8,579,000 | 1867 |86,218,000 |
| 1865 |17,625,000 | 1868 |57,275,000 |
| 1866 |47,333,000 | | |

Railway Building.

From this time, times grew better. The crops of 1868 were good, and an era of railway building was under way and with it the building of new towns and opening of new territory. Railway mileage completed, by years from 1865 to 1875, was as follows:

| | | | |
|------|------------|------|------------|
| | Miles | 1870 |6,078 |
| 1865 |1,117 | 1871 |7,329 |
| 1866 |1,716 | 1872 |5,870 |
| 1867 |2,249 | 1873 |4,097 |
| 1868 |2,974 | 1874 |1,117 |
| 1869 |4,615 | 1875 |2,712 |

In May, 1869, according to the Magazine, a boom is on: It tells of active building operations in many towns and cities, and says that towns and counties are voting aid to railroads. In July, 1869, it says:

"Railroads are being extended, new manufactories, residences and other buildings are rising up around us, and wherever we go in agricultural districts or in manufacturing centers there is offered to the eye the same evidence of the investment of capital in productive enterprises."

In October, 1869, it says:

At the commencement of the present year there were in the United States 42,235 miles of railways. Before the year closes we shall certainly have at least 50,000 miles. In Illinois at least a half dozen lines are in progress, and the same may be said of Indiana, Michigan, Iowa and Missouri. Never was there such activity in this direction.

Immigration from 1864 to 1875 was as follows:

| | | | |
|------|--------------|------|--------------|
| 1864 |193,195 | 1870 |387,203 |
| 1865 |247,453 | 1871 |321,350 |
| 1866 |314,917 | 1872 |404,806 |
| 1867 |310,965 | 1873 |459,803 |
| 1868 |138,840 | 1874 |313,339 |
| 1869 |352,768 | 1875 |227,498 |

In 1870 the Franco-German war closed European investment markets to American bonds. Hunt's Magazine was succeeded in this year by the Financial Chronicle, which says at the close of the year that but for the war undoubtedly railroad construction in that year would have reached 10,000 miles.

Danger Flag.

In the summer of 1870, gold was down to 111, but at the close of August the Franco-German war had put it back to 122. Gold at the opening of 1871 was \$1.10 7-8, wheat \$1.45 per bushel, corn 79 cents, flour \$6.25 to \$6.50 per barrel, cotton 15 1-4 cents per pound, mess pork \$21.00 to \$21.25 per barrel. In May, 1871, the Chronicle hung out a danger flag, saying:

For a long time our most experienced financiers have looked with apprehension on the amazing rapidity with which our floating capital has been investing itself in railroads and other vast enterprises.

The year 1872 opened with gold at 108 to 110, and with the country still in the high tide of prosperity, but this was the last year of really boom times. On May 25, the Chronicle, discussing the expansion which was going on, said:

This inflation has spread to real estate. In almost every populous city, houses and lands are valued at much higher prices than six or eight years ago.

In June gold was at 113 to 114, and in August reached 115, the rise indicating remittances to Europe. The trade balance was running against us, and Europe was not taking enough securities to balance the accounts. Money was getting very tight, and as the monetary system was inelastic, the fall demands were very difficult to handle.

The Chronicle was pessimistic in the forepart of 1873. It was of the opinion that the country had overdone the period of expansion. It explained tight money in the spring as the result of the construction of 10,000 to 11,000 miles of railroad since January, 1871, and the "prodigious investments in houses and factories, in machinery and other productive works." "An immense conversion," it said, "of floating into fixed capital has been going on."

Panic of 1873.

On September 18, 1873, Jay Cooke & Co., one of the leading financial houses of the country, with offices in Philadelphia, New York and Washington, failed. It had had charge of the distribution of Government bonds during the war and thus was familiarly known in every part of the country, and the failure gave a great shock in business circles. Several banks in Philadelphia, New York and Washington, which were directly related to it, were obliged to close immediately; country banks withdrew their balances, not only from New York but from other centers. Several of the leading banks of Chicago closed their doors, and a bank panic spread rapidly over the country.

Cooke & Co. were financial agents for the Northern Pacific Railway, then building, and had made large advances to it. Railway promotion came to an end, and practically all other construction work with it. Industrial activity fell to a low ebb, with no recovery until gold payments were resumed January 1, 1879. Meanwhile, railway expansion had opened up a vast amount of new farming territory in the Middle West, and agricultural production had increased to a point

where prices became absolutely unremunerative. Corn was burned for fuel in Iowa and Nebraska, and although food was cheap the wage-earners of the industrial centers could scarcely find work enough to provide a living.

Mr. D. H. Burrell, of D. H. Burrell & Co., Little Falls, New York, writing to this bank recently of that period, said that nearly all the manufacturers up and down the Mohawk Valley failed in those years. "It had been said that low prices would never be seen again, but labor for building streets as well as doing farm work, and so on, ranged here from 85 cents to \$1.00 per day in this period of depression."

To summarize the period after the Civil War there seems to have been no important change in conditions until 1867, when there was a period of very dull business, but no panic. Then a recovery set in which was identified with railway building and ended in 1872-3.

German Expansion After 1870.

Germany enjoyed several years of great prosperity in the years following the end of the war with France, 1870-71; but here was a set of unusual conditions. The formation of the German empire from the 25 states furnished the occasion for a reorganization of industry on a scale suitable to the greater territory included in the bounds of the nation and appropriate to the new position of Germany in world affairs. It stimulated the imagination and energies of the German people. The indemnity of \$1,000,000,000, which was a very large sum of money in those days, and its expenditure, was also a stimulating factor. A writer upon this chapter of German history describes it briefly as follows:

After 1870 the old customs barriers and many other hindrances to trade were swept away, and the natural development of industry and trade gave a new impulse to business activity and prosperity. The enormous French war indemnity acted as a further stimulus. Prices rose, including the price of labor, the workman for the moment felt better off and more self-important. This new capital also led everywhere to the construction of new factories, railroads and enterprises of every kind. It is estimated that in the three years between 1871 and 1874 as many factories were built as in all the preceding seventy years! In Prussia, in 1872 alone, in addition to 1800 existing miles of railroad, 700 more were actually laid down and 1200 planned! Soon, however, unscrupulous promoters, taking advantage of the public interest and confidence in business activity, launched upon an unsuspecting public innumerable companies and schemes which were mere swindles, stock-jobbing methods of robbing the public flourished for a time, until the natural result of over-capitalization and unsound finance came in the terrible crash of 1873.—History of Nations, Vol. 28, p. 438.

The Bond Market.

A change of very real importance and of marked significance has occurred in the bond market during the month of October. In the closing week of activity, prior to the Liberty Loan campaign, the bond market was under heavy pressure. Block offerings were numerous and high grade issues in round amounts were pressing for sale at prices substantially below the current quotations on the New York Stock Exchange. On the understanding that dealers should withhold offerings during the placing of the Government issue, there was little appetite even for these bargain offerings and the first of October found the market for bonds, and especially

for first and second grade railroad issues, at the lowest point since the war began. This condition continued into the middle of the month, when with the rapidly occurring favorable military events, and notably the surrender of Bulgaria, the impression that peace was not far off became practically universal and with the end of the Liberty Loan Campaign in sight there was complete reversal in form in the bond market. The change was not so much reflected in the activity of the market, for activity was precluded by the Liberty Loan Campaign in which all investment dealers were giving the greater part of their time, but it was rather reflected in the entire removal of selling pressure from the market. Offerings were generally withdrawn and dealers evidenced a desire to accumulate for later distribution, following the Loan Campaign, and began to reach for bonds at advancing prices. Long term bonds, which, in the so-called war market, had been largely neglected were especially favored in this radical and generally considered "peace movement" in bonds.

The following list of advances in long term railroad issues gives a clear idea of the change in sentiment that occurred from the beginning to the end of the Liberty Loan Campaign:

| Issue. | Rise. |
|---------------------------------------|-------|
| Atch. Gen. 4's..... | 5 1/2 |
| Northern Pac. Prior Lien 4's..... | 5 |
| C. B. & Q. Gen. 4's..... | 7 1/2 |
| Reading Gen. 4's..... | 3 1/2 |
| Penn. Gen. 4 1/2's..... | 3 1/2 |
| Un. Pac. Refunding 4's..... | 4 1/2 |
| Ill. Cen. Refunding 4's..... | 3 1/2 |
| Sou. Pac. Refunding 4's..... | 6 1/2 |
| B. & O. Gold 4's..... | 6 1/2 |
| N. Y. Central Refunding 4 1/2's..... | 6 1/2 |
| St. L. & S. Fran. Prior Lien 4's..... | 4 1/2 |
| Mo. P. General 4's..... | 5 1/2 |
| South. Ry. Dev. 4's..... | 3 1/2 |
| Pere Marq. 3's..... | 3 |
| D. & R. G. Cons. 4's..... | 5 1/2 |
| St. Paul Refunding 4 1/2's..... | 5 1/2 |

During the week following the Loan Campaign the public entered the bond market seeking especially long term issues and for the first time in more than a year there has been buying by banking institutions for their own account of long term rails. This noted movement is certain to bring about a further advance in this class of issue.

Public utilities led in the general advance, although they were still some fifteen points under the high prices of last year. The most sensational advance was in Russian External bonds, early prices carrying them to the high of the year, approximately thirty points above their low figures. Practically all foreign loans sold at the high prices of the year, French Republic 5 1/2's reaching 102 1/2. During the Liberty Loan campaign outstanding Liberty issues traded upon the Stock Exchange shared in the general upward movement. The closing days of the month witnessed an unusually large volume of trading.

The first important general market issue brought out following the Loan Campaign was the American Tobacco Company, one to five year serial 7% notes on an interest yield basis of 7 to 7 1/4%. The issue was a tremendous suc-

cess, being oversubscribed nearly ten times and indicated a plethora of investment money that was not absorbed by the Government issue. We understand that the longest maturities were the most popular of all in the subscriptions, a significant fact in that it shows that the general public today realize that the high rates which have prevailed during recent months are not likely to continue and that there will be a very real demand for new issues of longer term than was attempted by distributing houses prior to the last Government Campaign.

National City Company in Japan.

The National City Company, which became a bond-selling organization two years ago and has been rapidly extending its operations, has just taken a new step by sending to Japan a Manager for its Far-Eastern business. It already has representatives in several foreign centres. The end sought is that of mutual advantage and co-operation through closer financial relations. Japan has been making great strides in wealth and industry and the interests represented in the National City Bank and National City Company believe that it is highly desirable from the standpoint of both countries that the interests of the two countries shall be intermingled. They believe that the good understanding now existing will be strengthened by such relations.

The creditor position now occupied by the United States makes it necessary that this country shall become a liberal lender of capital to other countries if we are to increase or even maintain our export trade. We cannot sell goods abroad without being paid for them in some manner, and it is out of the question to obtain settlement for large balances in gold. Our own production of commodities is so varied that we are not likely to greatly increase our importations of these. The only remaining means of settlement is in securities. We must learn to become foreign investors, and the National City Company hopes to perform a useful function in offering such securities which are worthy of confidence. The company is an international dealer in securities, offering American securities abroad, and foreign securities not only here but in all markets.

The company seeks particularly to enlarge by intensive cultivation and education the American market for sound, well established securities. It is a well known fact that the number of bond-buyers in this country previous to the war was comparatively small. Investments have been largely confined to localities, in real estate loans or local stocks and bonds, and the lack of knowledge about good securities has resulted in an enormous waste of savings in unsound speculative ventures.

The National City Company does not handle stocks, and confines its offerings to municipal bonds and the obligations of well-established,

successful corporations which are able to show assets and earnings to justify the credit they seek. The best professional talent available is employed to investigate every offering, thus rendering a service which in the nature of things the average investor is unable to do for himself. The end sought on the one side is to provide a great market in which capital can be raised for the expansion of American business, and on the other side to encourage thrift by providing safe investments and familiarizing the public with them.

War Savings Stamps.

The original act for authorizing the sale of War Savings and Thrift Stamps provided for a total issue of \$2,000,000,000, maturity value. The Secretary of the Treasury in his estimate figured upon cash receipts of \$663,200,000 during the fiscal year 1918, and \$1,009,200,000 in the fiscal year ending June 30, 1919. The work of creating a nation-wide organization had to be done before the sales could reach a large volume, but results on the whole have fully met expectations. The stamps were put on sale in December, 1917, and to October 23, 1918, the actual receipts of the Treasury were \$807,154,408, which would represent stamps having a maturity value of about \$900,000,000. Approximately one-half of the amount originally contemplated has now been sold, and Congress has increased the authorization to \$4,000,000,000.

The organization is now developed to do systematic work. There are registered at the Washington headquarters about 150,000 war savings societies, having in number of members from 10 to 12,000, all pledged to save and invest in Government securities. About 31,000,000 persons are pledged to economize and buy stamps. Besides the 55,000 post offices, 232,000 authorized agencies are selling the stamps, and the monthly income to the Government from this source now largely exceeds its total revenues before the war.

The wide distribution secured for these stamps makes them an especially desirable form of public indebtedness, and it is probable that their sale will be continued as long as there exists any occasion for borrowing by the Federal Government. Inasmuch as the Liberty loans will have to be refunded when they come due, this means that the stamps will be a feature of Government finance for a long time.

In September, Mr. Vanderlip, who had been at the head of the organization, submitted to the Secretary of the Treasury a plan for having the work carried on as a part of the activities of the Treasury Department, and this plan having been adopted, he retired and returned to the Presidency of this Bank, from which he had separated himself during his work in the former capacity.

Double Taxation.

The heavy income taxes which are being levied in all countries, not only upon residents and citizens but upon incomes derived from domestic sources, will be, if continued, a serious barrier to international investments, inasmuch as income derived from one country by a citizen of another is subject to taxation in both countries. The American Chamber of Commerce of Paris has recently passed resolutions and made representations to the French ministry upon the subject. The Chamber properly says that although comparatively few people are affected a principle is involved and injustice is done, and it cannot be the intention in any country that the income tax shall react upon some citizens in such a manner as to become in effect a penalty for residence abroad. The Chamber says:

"Export business cannot be done successfully by correspondence, or by occasional visits in foreign markets. The South American field, assiduously worked for years by European commercial representatives (residing in those countries), and until recently, very much neglected by the United States, is a striking example of this truth. If America would export her products, American citizens must reside abroad to take care of the business and this they will be discouraged from doing if their incomes are to be burdened with accumulated taxes from both sides.

The Chamber urges that the matter be made the subject of an international agreement, recognizing the principle that incomes should be taxed but once, and only in the country from which they are derived, irrespective of the domicile, the residence or the nationality of the tax-payer.

Effects Upon Export Trade.

The effects of this double taxation upon our own developing export trade is described in a letter to this Bank from a company which is devoted entirely to such trade and which has been making excellent progress. The writer says:

"The effect of taxation on the export business should, in my judgment, be more carefully considered than it has been. May I take our Company as an example, because it is a fair example and also because I know more of its affairs than of other companies?

"Our capital is all invested in foreign countries, where we pay local taxes as does every other merchant. All of our profits come from abroad and are not earned in this country. We have to pay certain local and state taxes here because we are an American Corporation, and a moderate tax on the small amount of merchandise which we carry here awaiting shipment. This same merchandise is taxed again when it reaches a foreign country, not only in duties but as stock or when sold.

"Now the tremendous income tax is added to this burden, putting us in an unfavorable position with our foreign competitors who pay no income tax except that which may be assessed in the country in which they reside and which we also have to pay. This policy, if continued, is in my judgment harmful to and may eventually very seriously affect the development of our foreign trade.

"Besides this is the question of the capital needed for the full development of foreign trade. Our Company will probably pay between \$400,000 and \$500,000 on account of income taxes before the rate is reduced to a normal sum. It is not our policy to pay large dividends, and we apply the greater portion of our earnings to our surplus and to extending our business. This sum, if maintained in our surplus, would enable us to do an additional annual business of approximately a million and a half dollars a year. I estimate that these sales would mean the employment of from 500 to 600 men at normal rates of pay. It would thus give additional employment to men at home and additional credits abroad, both of which help the country.

"It is not policy for me to present this matter formally because we do not wish to seek to evade our full share of the costs of war, but I maintain that exporters generally will be hampered in the development of their business by the high income taxes and that the ultimate loss to the country will be greater than the present benefit.

"I am writing this simply for your consideration. The time may come when we shall be willing to make these statements publicly, but for the time being we do not wish to seem to be slackers. For the same reason, we have for the time being decided against incorporating abroad. If our branches were foreign corporations, as they might well be, we should escape practically all of the present income tax and would be much stronger in the end for doing so."

Social Value of Private Profits.

The above statement is not only pertinent to the subject to which it is directed, but has a broader significance. The writer shows how the profits of this company in foreign trade are used to enlarge foreign trade, thereby enlarging the market for American products and increasing the demands on American workshops and American workmen. This is the view of profits which we have repeatedly presented, as opposed to the narrow view which looks jealously upon them as private plunder, taken from the many and devoted wholly to a few. Current discussion commonly proceeds upon the theory that although it is necessary to concede some measure of profit as a reward and incentive to business enterprise, all such profits are in fact extracted and withdrawn from the public and totally lost so far as the public is concerned. There is little recognition of the vital fact that profits furnish the capital for the development of industry and that the benefits derived by the public from such development may greatly exceed the value of the original profits in controversy. The bulk of the profits and incomes which are the subject of controversy are not withdrawn from the public but added to the capital fund and employed in increasing production and rendering services to the public. No discussion of private profits or private capital is intelligent which does not recognize these facts.

There is no final distribution of wealth except as it enters into consumption and disappears. Profits which are retained or re-invested in business have not been finally distributed. They are still to be regarded as means and agencies of production in which the entire community has an interest.

It has been reported by the newspapers that Mr. Henry Ford has stated that he wanted no profit from any of his great factories while the war was on. This is a fine spirit, but in view of the great services which his shops are rendering to the Government at this time it must be regarded as fortunate that he has made large profits in the past. One is moved to ask at what stage in his wonderful career it would have been advantageous to the public to have had his profits or his enterprise arbitrarily curtailed.

Just now there comes to hand a paragraph from the market letter of C. A. King & Co., a grain commission house at Toledo, telling of a fortune left by a prominent citizen of Toledo

recently deceased. It illustrates some of the vicissitudes of business life, and tells something of the ultimate distribution of profits.

Clarence Brown left the greatest will ever recorded here. He passed over recently. His will disposed of nearly two million dollars. He gave much direct to many relatives and friends. He also divided a million dollars among all the different charities, to be paid at the death of his wife. Twenty years ago he was a bright young lawyer, seeking clients. He was indebted to the Owens Bottle Machine Co. for an opportunity to amass his big fortune. This company has made many millions for other Toledo stockholders. It was lucky for them that Michael J. Owens did not remain in Ireland. His machines are almost human. He is. Few years ago he invested in another concern which turned out unprofitable. Some poor friends followed him and lost their money. He made their loss good to them, but was under no obligation to do so. Some of the other stockholders of the Owens have made many handsome gifts to Toledo institutions and friends and will do more.

The fortunes made by the bottling machine were taken from nobody. They consist of new wealth which did not exist before. First of all, bottles were made cheaper to the public; if they

had not been no fortunes would have been made from the business. We do not know the history of the Owens machine, but no doubt capital was required for its development; perhaps much capital was spent unsuccessfully upon various machines by people who never reached success. All such capital represented previous profits or savings which have their real distribution through the Owens machine. But even that is not a final distribution, because the profits from the Owens machine are re-invested and in some instances may be as fruitful as the investment in the Owens machine itself. In other instances, as shown by the story, they are lost and never inure to the benefit of the owners at all. The real distribution of wealth is not by ownership but by consumption.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS OCTOBER 25, 1918. (In Thousands of Dollars)

| RESOURCES | Boston | N. Y. | Phila. | Clev'd | Rich'd | Atlanta | Chicago | St. Louis | M'napl's | Kas. City | Dallas | S. Frisco | Total |
|--|----------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Gold in vaults and in transit..... | 3,890 | 275,428 | 215 | 29,287 | 6,239 | 6,930 | 25,588 | 2,219 | 8,262 | 220 | 8,074 | 10,327 | 376,679 |
| Gold Settlement Fund..... | 62,631 | 24,297 | 46,356 | 51,380 | 31,895 | 9,788 | 69,503 | 20,801 | 32,502 | 37,252 | 7,822 | 21,509 | 415,676 |
| Gold with foreign agencies..... | 408 | 2,011 | 408 | 525 | 204 | 175 | 816 | 233 | 233 | 291 | 204 | 321 | 5,829 |
| Total gold held by banks..... | 66,979 | 301,736 | 47,009 | 81,192 | 38,338 | 16,893 | 95,907 | 23,253 | 40,857 | 37,763 | 16,100 | 32,157 | 798,184 |
| Gold with Federal Reserve Agents..... | 67,971 | 285,627 | 119,189 | 149,324 | 60,968 | 45,844 | 193,672 | 48,992 | 48,232 | 47,322 | 24,215 | 93,642 | 1,184,998 |
| Gold Redemption Fund..... | 5,755 | 24,841 | 6,500 | 890 | 201 | 4,116 | 10,097 | 3,165 | 3,210 | 1,261 | 2,159 | 315 | 61,950 |
| Total gold reserves..... | 140,705 | 612,204 | 172,698 | 230,846 | 99,507 | 66,853 | 299,676 | 75,410 | 92,299 | 86,346 | 42,474 | 126,114 | 2,045,132 |
| Legal tender notes, Silver, etc..... | 2,989 | 43,516 | 745 | 428 | 665 | 241 | 1,300 | 1,828 | 78 | 126 | 894 | 227 | 53,037 |
| Total Reserves..... | 143,694 | 655,720 | 173,443 | 231,274 | 100,172 | 67,094 | 300,976 | 77,238 | 92,377 | 86,472 | 43,368 | 126,341 | 2,098,169 |
| Bills discounted: Sec. by Govt. war obligations..... | 77,591 | 476,068 | 78,354 | 61,128 | 44,710 | 45,531 | 152,405 | 44,283 | 10,878 | 33,762 | 15,672 | 52,035 | 1,092,417 |
| All other..... | 11,653 | 104,749 | 12,982 | 19,075 | 16,910 | 31,178 | 84,967 | 28,531 | 27,616 | 47,084 | 30,005 | 38,987 | 453,747 |
| Bills bought in open market..... | 55,880 | 142,156 | 30,915 | 57,458 | 7,936 | 10,533 | 37,583 | 4,643 | 3,691 | 6,576 | 2,400 | 38,852 | 798,623 |
| Total bills on hand..... | 145,124 | 722,973 | 122,251 | 137,661 | 69,556 | 87,242 | 274,955 | 77,457 | 42,185 | 87,422 | 48,077 | 129,874 | 1,944,787 |
| U. S. Government long-term securities..... | 537 | 1,491 | 1,348 | 1,089 | 1,234 | 520 | 4,509 | 1,153 | 127 | 8,867 | 4,005 | 3,461 | 28,251 |
| U. S. Government short-term securities..... | 2,410 | 212,999 | 22,182 | 10,881 | 1,285 | 1,991 | 43,112 | 3,321 | 1,399 | 1,695 | 1,107 | 20,302 | 322,060 |
| All other earning assets..... | 148,077 | 937,343 | 145,791 | 149,631 | 72,075 | 89,777 | 322,576 | 81,931 | 43,711 | 97,384 | 53,189 | 153,637 | 2,295,122 |
| Uncollected items (deduct from gross deposits)..... | 59,213 | 192,881 | 86,307 | 77,218 | 61,400 | 46,355 | 97,526 | 69,875 | 27,817 | 70,744 | 27,099 | 40,488 | 856,923 |
| Redemption fund against F. R. bank notes..... | 121 | 1,366 | 200 | 240 | 75 | 76 | 554 | 137 | 88 | 481 | 152 | 172 | 3,692 |
| All other resources..... | 1,132 | 2,862 | 1,945 | 893 | 2,404 | 836 | 1,483 | 832 | 231 | 1,078 | 937 | 2,144 | 16,879 |
| TOTAL RESOURCES..... | 352,237 | 1,790,172 | 407,686 | 459,256 | 236,126 | 204,138 | 723,117 | 230,063 | 164,224 | 256,159 | 124,825 | 322,782 | 5,270,785 |
| LIABILITIES | | | | | | | | | | | | | |
| Capital Paid In..... | 6,579 | 20,220 | 7,391 | 8,868 | 4,018 | 3,162 | 11,042 | 3,754 | 2,901 | 3,609 | 3,115 | 4,531 | 79,190 |
| Surplus..... | 73 | 619 | | 916 | 40 | 40 | 216 | | 39 | | | | 1,134 |
| Government Deposits..... | 13,287 | 8,523 | 2,308 | 5,050 | 13,624 | 2,284 | 6,546 | 10,919 | 3,477 | 8,704 | 5,098 | * 1,612 | 78,218 |
| Due to members—reserve account..... | 115,059 | 691,561 | 92,378 | 140,471 | 52,807 | 43,175 | 236,232 | 58,651 | 50,744 | 76,317 | 35,697 | 96,408 | 1,683,499 |
| Collection Items..... | 59,846 | 201,277 | 85,243 | 52,694 | 44,094 | 36,071 | 71,514 | 45,017 | 18,215 | 45,855 | 14,366 | 28,015 | 702,107 |
| Other deposits incl'd g For. Government credits..... | | 111,210 | 312 | | 75 | 2,191 | 357 | 41 | | | 35 | 2,780 | 117,001 |
| Total Gross Deposits..... | 188,201 | 1,012,571 | 179,929 | 198,427 | 110,525 | 81,605 | 310,483 | 114,944 | 72,477 | 130,876 | 55,196 | 125,591 | 2,580,825 |
| F. R. Notes in actual circulation..... | 151,792 | 721,939 | 214,793 | 244,571 | 118,810 | 116,582 | 385,037 | 107,164 | 86,531 | 111,045 | 61,942 | 187,706 | 2,507,912 |
| F. R. Bank Notes in circulation, net liability..... | 2,393 | 19,158 | 3,303 | 4,359 | 768 | 1,400 | 10,535 | 2,513 | 855 | 8,067 | 3,163 | 2,322 | 58,859 |
| All other Liabilities..... | 3,194 | 15,635 | 2,270 | 3,031 | 1,889 | 1,049 | 5,784 | 1,688 | 1,422 | 2,562 | 1,409 | 2,632 | 42,865 |
| TOTAL LIABILITIES..... | 352,237 | 1,790,172 | 407,686 | 459,256 | 236,126 | 204,138 | 723,117 | 230,063 | 164,224 | 256,159 | 124,825 | 322,782 | 5,270,785 |

(a) Total Reserve notes in circulation, 2,580,825.

(b) Bills discounted and bought: U. S. Government short term securities; municipal warrants, etc.: 1-15 days 1,449,769; 16-30 days 221,142; 31-60 days 279,835; 61-90 days 241,577; over 90 days 74,548. Total 2,266,871.

Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.6%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 71.7%.

DISCOUNT RATES: Discount rates are unchanged from a month ago. A new rate has been established for paper secured by the Fourth Liberty Loan Bonds where the paper rediscounted has been taken by rediscounting banks at a rate not exceeding coupon rates, viz: Boston, Richmond, Atlanta, Chicago, St. Louis and Kansas City, each 4%.

All discount rates on bankers' acceptances are given as follows: 15 days, 4%; 16-90 days, 4½%; 61-90 days, 4½%.

THE NATIONAL CITY BANK OF NEW YORK

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National City Bank Building, New York

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| | | | |
|---|---|--|---|
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